

VILLAGE OF VERNON

VERNON, MICHIGAN

AUDIT REPORT FOR THE YEAR ENDED MARCH 31, 2008

TABLE OF CONTENTS

	<u>PAGE</u>
Report of Independent Accountants	I
Management Discussion and Analysis	II - IX
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
Statement of Net Assets – Proprietary Fund	5
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	6
Statement of Cash Flows – Proprietary Fund	7
Budgetary Comparison Schedules:	
General Fund	8
Major Street Fund	9
Local Street Fund	10
Notes to the Financial Statements	11 – 17
Other Supplemental Schedules:	
Schedule 1 - Schedule of Expenditures – General Fund	18 – 20
Schedule 2 – Schedule of Expenditures – Special Revenue Fund	21
Schedule 3 – Schedule of Cash Receipts and Disbursements – Current Tax Collection Fund	22
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23 – 24



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

October 13, 2008

INDEPENDENT AUDITOR'S REPORT

To the Village Council
of the Village of Vernon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of Village of Vernon, as of and for the years ended March 31, 2008. These financial statements are the responsibility of the Village of Vernon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, of Village of Vernon as of March 31, 2008, and respective changes in financial position, and cash flows where applicable, thereof and the respective budgetary comparison for the General Fund, Major Street Fund and the Local Street Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2008 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages II - IX is not required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Vernon's basic financial statements. The additional information on pages 18 - 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.
LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2008

As management of the Village of Vernon, we offer readers of the Village of Vernon's financial statements this narrative overview and analysis of the financial activities of the Village of Vernon for the year ended March 31, 2008.

FINANCIAL HIGHLIGHTS

- A. The assets of the Village exceeded its liabilities at the close of the most recent year by \$1,791,527 (net assets) for 2008.
- B. The Village's total net assets decreased by \$97,006 for 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Village of Vernon's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary and additional information in addition to the basic financial statements themselves.

Government-Wide Financial Statements:

The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reports as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. delinquent personal property taxes).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2008

Fund Financial Statements: (Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, major street and local street funds, all of which are considered to be major funds.

The Village adopts an annual appropriated budget for its general fund, major street and local street funds. Budgetary comparison statements have been provided for the general fund, major street and local street funds in the required supplementary information.

The basic governmental fund financial statements can be found on pages 3 through 4 of this report.

Proprietary Funds

The Village maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its sewer activity.

The proprietary fund financial statements can be found on pages 5 to 7 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11 through 17 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information. The supplementary information can be found on pages 18 through 22 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the Village, assets exceed liabilities by \$1,791,527 for the year ended March 31, 2008.

The Village's net assets (31%) reflects its investment in capital assets (e.g., land, building, machinery, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2008

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NET ASSETS
MARCH 31, 2008 AND 2007

	<u>2008</u>			<u>2007</u>
	<u>Governmental</u>	<u>Business-Type</u>		
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Total</u>
Current Assets	\$933,252	\$344,536	\$1,277,788	\$1,309,095
Noncurrent Assets	200,688	355,414	556,102	605,661
Total Assets	\$1,133,940	\$699,950	\$1,833,890	\$1,914,756
Current Liabilities	15,600	26,763	42,363	27,185
Net Assets				
Invested in Capital Assets – Net of Debt	200,688	355,414	556,102	605,661
Restricted	0	320,787	320,787	303,540
Unrestricted	917,652	(3,014)	914,638	978,370
<u>TOTAL NET ASSETS</u>	<u>\$1,118,340</u>	<u>\$673,187</u>	<u>\$1,791,527</u>	<u>\$1,887,571</u>

This year as well as last year, the Village is able to report positive balances in all three categories of net assets, both for the Village as a whole, as well as for its separate governmental and business-type activities.

During year ended March 31, 2008, the Village's net assets decreased by \$97,006.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2008

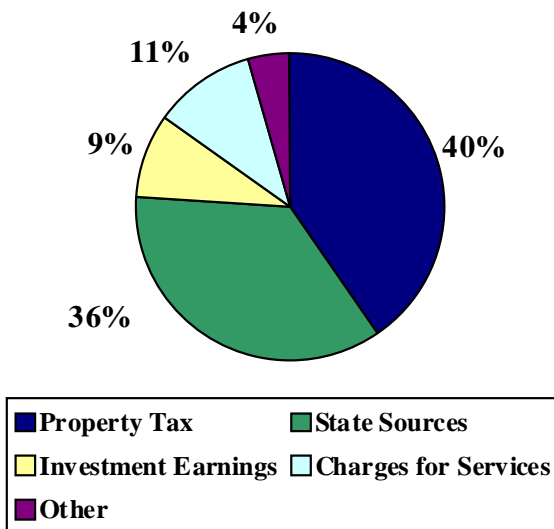
GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

CHANGES IN NET ASSETS
YEARS ENDED MARCH 31, 2008 AND 2007

	2008			2007
	Governmental Activities	Business Type Activities	Total	Total
Revenues:				
Program Revenues:				
Charges for Services	\$47,633	\$72,583	\$120,216	\$116,146
General Revenues:				
Property Taxes	178,605	0	178,605	162,523
State Sources	157,844	0	157,844	158,768
Investment Earnings	40,000	15,812	55,812	48,727
Other	19,931	0	19,931	26,881
Total Revenues	\$444,013	\$88,395	\$532,408	\$513,045
Functions/Program Expenses:				
General Government	190,302	0	190,302	169,706
Public Safety	85,608	0	85,608	258,796
Public Works	115,901	0	115,901	70,547
DDA	4,739	0	4,739	323
Culture and Recreation	8,222	0	8,222	13,838
Appropriations	2,067	0	2,067	3,000
Sewer	0	222,575	222,575	84,671
Total Expenses	\$406,839	\$222,575	\$629,414	\$600,881
<u>INCREASE IN NET ASSETS</u>	<u>\$37,174</u>	<u>(\$134,180)</u>	<u>(\$97,006)</u>	<u>(\$87,836)</u>

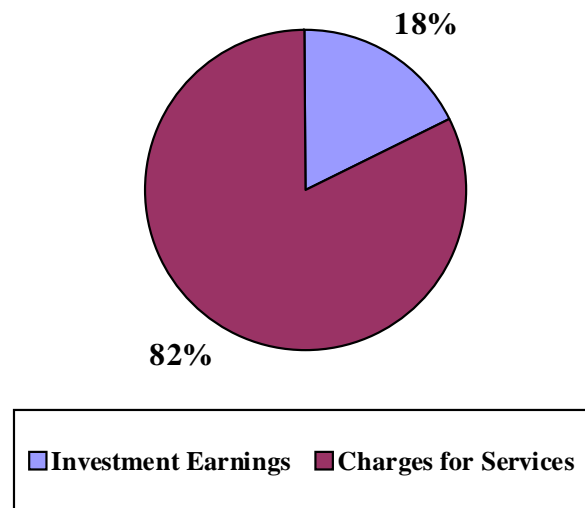
Revenues by Source – Governmental Activities

Total Revenues = \$444,013



Revenues by Source – Business-Type Activities

Total Revenues = \$88,395



VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2008

ANALYSIS OF FINANCIAL POSITION

The focus of the Village's funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The Village's general fund is the chief operating fund of the Village. Unreserved fund balance for the general fund increased by \$22,159 during the year. Revenues for the year increased by \$11,367 primarily from increases in property taxes. Expenditures and other financing uses increased by \$21,875 primarily from increases in general services.

Major Street Fund

The primary activity of this fund is the general maintenance of major streets in the Village. The most significant activity was completing the resurfacing project scheduled. The Village is also a part of the State of Michigan METRO Act Program with the fund allocated to the Village for right-of-way maintenance.

Local Street Fund

The primary activity of this fund is the general maintenance of the Villages local streets.

Sewer Fund

The primary activity of this fund is to provide the Village with sewer services. Repairs and maintenance to the existing sewer mains and lift stations encompass this funds most significant activity for the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

At the end of the year, the Village had \$1,263,490 invested in land and buildings, furniture and equipment, and vehicles. Of this amount, \$707,388 in depreciation has been taken over the years. We currently have net book value of \$556,102. Total acquisitions for the year were \$0 and depreciation expense was \$49,559.

CAPITAL ASSETS AT YEAR END
(NET OF DEPRECIATION)

	Governmental Activities	Business Type Activities	Total
Land	\$0	\$27,426	\$27,426
Building and Improvements	19,121	321,117	340,238
Furniture and Equipment	11,646	6,871	18,517
Infrastructure	169,540	0	169,540
Vehicles	381	0	381
<u>TOTAL</u>	<u>\$200,688</u>	<u>\$355,414</u>	<u>\$556,102</u>

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2008

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

GENERAL FUND BUDGET VS. ACTUAL

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$321,515	\$321,515	\$361,411	0.00%	12.41%
Expenditures	321,515	321,515	339,252	0.00%	5.52%
<u>TOTAL</u>	<u>\$0</u>	<u>\$0</u>	<u>\$22,159</u>		

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Village approve the original budget for the upcoming year prior to April 1, the start of the year.

Original vs. Final Budgets

Revenues and Expenditures

There was no change between original and final budget.

Actual Results vs. Final Budgets

Revenues

The Village's final, actual general fund revenues differed from final budget by \$39,896, a variance of 12.41 percent from final budget. The variance is due to the Village collecting more taxes and earning more investment income than expected.

Expenditures

Village's actual expenditures were more than final budget by \$17,737, a variance of 5.52 percent from final budget due to increased general expenses.

MAJOR STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

MAJOR STREET FUND BUDGET VS. ACTUAL

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$56,200	\$56,200	\$55,210	0.00%	1.76%
Expenditures	56,200	56,200	35,948	0.00%	36.04%
<u>TOTAL</u>	<u>\$0</u>	<u>\$0</u>	<u>\$19,262</u>		

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2008

MAJOR STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES (Continued)

Original vs. Final Budgets

Revenues and Expenditures

There was no change between original and final budget.

Actual Results vs. Final Budgets

Revenues

The Village's final, actual general fund revenues differed from final budget by \$990, a variance of 1.76 percent from final budget. The variance is due to the Village collecting more taxes than expected.

Expenditures

Village's actual expenditures were less than final budget by \$20,252, a variance of 36.04 percent from final budget due to less contracted services than expected.

LOCAL STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

LOCAL STREET FUND BUDGET VS. ACTUAL

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$31,000	\$31,000	\$35,498	0.00%	14.51%
Expenditures	31,000	31,000	9,457	0.00%	69.49%
<u>TOTAL</u>	<u>\$0</u>	<u>\$0</u>	<u>\$26,041</u>		

Original vs. Final Budgets

Revenues and Expenditures

There was no change between original and final budget.

Actual Results vs. Final Budgets

Revenues

The Village's final, actual general fund revenues differed from final budget by \$4,498, a variance of 14.51 percent from final budget. The variance is due to the Village collecting more taxes than expected.

Expenditures

Village's actual expenditures were less than final budget by \$21,543, a variance of 9.49 percent from final budget due to less contracted services than expected.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2008

ECONOMIC FACTORS

The Village anticipates a slight increase in property tax revenue while anticipating a decrease in building permits and state shared revenue. The budget for 2008/2009 is as follows:

Revenue	\$481,275
Expenses	<u>481,275</u>
<u>Net Revenue</u>	<u><u>\$0</u></u>

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Village's finances. If you have questions about this report or need additional information, contact the Business Office, Village of Vernon.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF NET ASSETS
AS OF MARCH 31, 2008

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and Cash Equivalents	\$902,677	\$328,858	\$1,231,535
Accounts Receivable	0	14,232	14,232
Interest Receivable	3,812	1,446	5,258
Internal Balance	26,763	0	26,763
Total Current Assets	<u>\$933,252</u>	<u>\$344,536</u>	<u>\$1,277,788</u>
<u>NON-CURRENT ASSETS</u>			
Capital Assets	462,330	801,160	1,263,490
Less: Accumulated Depreciation	<u>(261,642)</u>	<u>(445,746)</u>	<u>(707,388)</u>
Total Noncurrent Assets	<u>\$200,688</u>	<u>\$355,414</u>	<u>\$556,102</u>
<u>TOTAL ASSETS</u>	<u>\$1,133,940</u>	<u>\$699,950</u>	<u>\$1,833,890</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	\$15,600	\$0	\$15,600
Internal Balance	0	26,763	26,763
Total Current Liabilities	<u>\$15,600</u>	<u>\$26,763</u>	<u>\$42,363</u>
<u>NET ASSETS</u>			
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	200,688	355,414	556,102
Restricted	0	320,787	320,787
Unrestricted	917,652	(3,014)	914,638
<u>TOTAL NET ASSETS</u>	<u>\$1,118,340</u>	<u>\$673,187</u>	<u>\$1,791,527</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$1,133,940</u>	<u>\$699,950</u>	<u>\$1,833,890</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General Government	\$190,302	\$47,633	\$0	(\$142,669)	\$0	(\$142,669)
Public Safety	85,608	0	0	(85,608)	0	(85,608)
Public Works	115,901	0	0	(115,901)	0	(115,901)
DDA	4,739	0	0	(4,739)	0	(4,739)
Culture and Recreation	8,222	0	0	(8,222)	0	(8,222)
Appropriations	2,067	0	0	(2,067)	0	(2,067)
Total Governmental Activities	\$406,839	\$47,633	\$0	(\$359,206)	\$0	(\$359,206)
Business-Type Activities:						
Enterprise	222,575	72,583	0	0	(149,992)	(149,992)
<u>TOTALS</u>	<u>\$629,414</u>	<u>\$120,216</u>	<u>\$0</u>	(\$359,206)	(\$149,992)	(\$509,198)
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purposes				178,605	0	178,605
State Sources				157,844	0	157,844
Investment Earnings				40,000	15,812	55,812
Miscellaneous				19,931	0	19,931
Total General Revenues				\$396,380	\$15,812	\$412,192
Change in Net Assets				\$37,174	(\$134,180)	(\$97,006)
Net Assets - Beginning - As Restated				1,081,166	807,367	1,888,533
<u>Net Assets - Ending</u>				<u>\$1,118,340</u>	<u>\$673,187</u>	<u>\$1,791,527</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF MARCH 31, 2008

	Special Revenue Funds				
	General	Major	Local	Non-Major	Total
	Fund	Street	Street	DDA	Governmental
		Fund	Fund	Fund	Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$763,409	\$70,275	\$61,401	\$7,592	\$902,677
Interest Receivable	3,812	0	0	0	3,812
Due from Other Funds	56,223	7,443	0	0	63,666
<u>TOTAL ASSETS</u>	<u>\$823,444</u>	<u>\$77,718</u>	<u>\$61,401</u>	<u>\$7,592</u>	<u>\$970,155</u>
<u>LIABILITIES</u>					
Accounts Payable	\$15,600	\$0	\$0	\$0	\$15,600
Due to Other Funds	0	22,674	14,229	0	36,903
Total Liabilities	\$15,600	\$22,674	\$14,229	\$0	\$52,503
<u>FUND BALANCES</u>					
Designated	78,854	0	0	0	78,854
Unreserved and Undesignated	728,990	55,044	47,172	7,592	838,798
Total Fund Balances	\$807,844	\$55,044	\$47,172	\$7,592	\$917,652
<u>TOTAL LIABILITIES & FUND BALANCES</u>	<u>\$823,444</u>	<u>\$77,718</u>	<u>\$61,401</u>	<u>\$7,592</u>	<u>\$970,155</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF MARCH 31, 2008

Total Governmental Fund Balances:	\$917,652
-----------------------------------	-----------

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$462,330 and the accumulated depreciation is \$261,642	<u>200,688</u>
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------

<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>	<u>\$1,118,340</u>
-------------------------------------------------------------	--------------------

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2008

	General Fund	Special Revenue Funds			Total Governmental Funds
		Major Street Fund	Local Street Fund	Non-Major DDA Fund	
<u>REVENUES</u>					
Taxes	\$171,966	\$0	\$0	\$6,639	\$178,605
State Sources	87,000	53,224	17,620	0	157,844
Licenses and Permits	10,781	0	0	0	10,781
Charges for Service	47,633	0	0	0	47,633
Fines and Forfeits	1,089	0	0	0	1,089
Investment Income	36,594	1,986	1,420	0	40,000
Miscellaneous Revenues	6,348	0	0	1,713	8,061
Total Revenues	<u>\$361,411</u>	<u>\$55,210</u>	<u>\$19,040</u>	<u>\$8,352</u>	<u>\$444,013</u>
<u>EXPENDITURES</u>					
Current:					
General Government	156,401	0	0	0	156,401
Public Safety	85,608	0	0	0	85,608
Public Works	86,954	19,490	9,457	0	115,901
DDA	0	0	0	4,739	4,739
Culture and Recreation	8,222	0	0	0	8,222
Appropriations	2,067	0	0	0	2,067
Total Expenditures	<u>\$339,252</u>	<u>\$19,490</u>	<u>\$9,457</u>	<u>\$4,739</u>	<u>\$372,938</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$22,159	\$35,720	\$9,583	\$3,613	\$71,075
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers to Other Funds (Net)	<u>0</u>	<u>(16,458)</u>	<u>16,458</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	\$22,159	\$19,262	\$26,041	\$3,613	\$71,075
<u>FUND BALANCE - BEGINNING</u>	<u>785,685</u>	<u>35,782</u>	<u>21,131</u>	<u>3,979</u>	<u>846,577</u>
<u>FUND BALANCE - ENDING</u>	<u><u>\$807,844</u></u>	<u><u>\$55,044</u></u>	<u><u>\$47,172</u></u>	<u><u>\$7,592</u></u>	<u><u>\$917,652</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008

Total net change in fund balances - governmental funds	\$71,075
--------------------------------------------------------	----------

Amounts reported for governmental activities in the statement of
activities are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is
the amount by which capital outlay exceeded depreciation in the
current period.

<u>(33,901)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

<u>\$37,174</u>

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUND
AS OF MARCH 31, 2008

	<u>Enterprise</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$328,858
Accounts Receivable	14,232
Interest Receivable	1,446
Total Current Assets	<u>\$344,536</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets:	
Land	27,426
Improvements Other than Buildings	744,685
Machinery and Equipment	29,049
Total Capital Assets	<u>\$801,160</u>
Less Accumulated Depreciation	<u>(445,746)</u>
Total Noncurrent Assets	<u>\$355,414</u>
<u>TOTAL ASSETS</u>	<u>\$699,950</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Due to Other Funds	\$26,763
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets - Net of Related Debt	355,414
Restricted	320,787
Unrestricted	(3,014)
Total Net Assets	<u>\$673,187</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$699,950</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED MARCH 31, 2008

	<u>Enterprise</u>
<u>OPERATING REVENUES</u>	
Base Charge Fees	\$68,016
Delinquency Fees	4,567
Total Operating Revenues	<u>\$72,583</u>
<u>OPERATING EXPENSES</u>	
Maintenance Salaries and Fringes	7,355
Administrative Supplies and Expense	162,345
Repairs and Maintenance	37,217
Depreciation and Amortization	15,658
Total Operating Expenses	<u>\$222,575</u>
Operating Income	(\$149,992)
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Revenue	15,812
Change in Net Assets	<u>(\$134,180)</u>
<u>NET ASSETS - BEGINNING</u>	<u>807,367</u>
<u>NET ASSETS - ENDING</u>	<u><u>\$673,187</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED MARCH 31, 2008

	<u>Enterprise</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash Received from Customers	\$86,273
Cash Payments to Suppliers for Goods and Services	(199,463)
Cash Payments to Employees for Services	(7,355)
Net Cash (Used In) Operating Activities	<u>(\$120,545)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest on Investments	<u>15,812</u>
<u>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	(\$104,733)
<u>BALANCES - BEGINNING OF YEAR</u>	<u>433,591</u>
<u>BALANCES - END OF YEAR</u>	<u>\$328,858</u>
<u>Reconciliation of Operating Income to Net Cash Provided By</u>	
<u>Operating Activities</u>	
Operating (Loss)	(\$149,992)
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation and Amortization	15,658
(Increase) Decrease in Assets	
Accounts Receivable	4,118
Increase (Decrease) in Liabilities	
Accounts Payable	(3,928)
Due to Other Funds	<u>13,599</u>
<u>NET CASH (USED IN) OPERATING ACTIVITIES</u>	<u>(\$120,545)</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2008

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
<u>REVENUES</u>				
Taxes	\$162,000	\$162,000	\$171,966	\$9,966
State Sources	85,500	85,500	87,000	1,500
Licenses and Permits	6,075	6,075	10,781	4,706
Charges for Service	34,640	34,640	47,633	12,993
Fines and Forfeits	2,600	2,600	1,089	(1,511)
Investment Income	20,000	20,000	36,594	16,594
Miscellaneous Revenues	10,700	10,700	6,348	(4,352)
Total Revenues	\$321,515	\$321,515	\$361,411	\$39,896
<u>EXPENDITURES</u>				
General Government	144,500	144,500	156,401	(11,901)
Public Safety	88,400	88,400	85,608	2,792
Public Works	71,975	71,975	86,954	(14,979)
Culture and Recreation	14,540	14,540	8,222	6,318
Appropriations	2,100	2,100	2,067	33
Total Expenditures	\$321,515	\$321,515	\$339,252	(\$17,737)
Net Change in Fund Balance	\$0	\$0	\$22,159	\$22,159
<u>FUND BALANCE - BEGINNING</u>			785,685	
<u>FUND BALANCE - ENDING</u>			\$807,844	

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED MARCH 31, 2008

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
State Sources	\$55,200	\$55,200	\$53,224	(\$1,976)
Investment Income	<u>1,000</u>	<u>1,000</u>	<u>1,986</u>	<u>986</u>
Total Revenues	\$56,200	\$56,200	\$55,210	(\$990)
<u>EXPENDITURES</u>				
Public Safety	<u>42,700</u>	<u>42,700</u>	<u>19,490</u>	<u>23,210</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$13,500	\$13,500	\$35,720	\$22,220
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to Other Funds	<u>(13,500)</u>	<u>(13,500)</u>	<u>(16,458)</u>	<u>(2,958)</u>
Net Change in Fund Balance	\$0	\$0	\$19,262	\$19,262
<u>FUND BALANCE - BEGINNING</u>			<u>35,782</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$55,044</u>	

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE YEAR ENDED MARCH 31, 2008

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
State Sources	\$17,000	\$17,000	\$17,620	\$620
Investment Income	500	500	1,420	920
Total Revenues	\$17,500	\$17,500	\$19,040	\$1,540
<u>EXPENDITURES</u>				
Public Safety	31,000	31,000	9,457	21,543
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$13,500)	(\$13,500)	\$9,583	\$23,083
<u>OTHER FINANCING SOURCES</u>				
Transfers from Other Funds	13,500	13,500	16,458	2,958
Net Change in Fund Balance	\$0	\$0	\$26,041	\$26,041
<u>FUND BALANCE - BEGINNING</u>			21,131	
<u>FUND BALANCE - ENDING</u>			\$47,172	

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

1) REPORTING ENTITY

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. The Village of Vernon's Village Council is the primary government which has oversight responsibility and control over all activities related to sanitation, public improvements, planning and zoning, and general administrative services within the Village. The Village receives funding from local, state and federal government sources and must comply with the accompanying requirements of these funding sources. However, the Village is not included in any other governmental "reporting entity" as defined by GASB pronouncements since the Village Council is a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities. As such, the Village Council has decision making authority, the authority to levy taxes and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Village of Vernon conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the Village’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the Village’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The Village’s basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Village’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Village are grouped into the categories governmental and proprietary.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS (Continued)

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Village. Revenues are derived primarily from property taxes and state distributions, grants and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Fund

The Village applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Enterprise Fund

This fund is used to account for the operations of the sanitary sewer system which is financed by user charges, and where periodic measurement of net income is appropriate for capital maintenance and management control.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The proprietary fund also uses the accrual basis of accounting.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The Village reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Village receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) CASH AND CASH EQUIVALENTS

The Village considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) BAD DEBTS

The Village provides an allowance for doubtful accounts equal to the estimated losses that will be incurred in the collection of all receivables. The estimated losses are based on a review of the current status of the existing receivables.

F) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. In accordance with the provisions of GASB 34 the Village has elected to capitalize the cost of government fund infrastructure assets after the implementation date of GASB 34. Prior acquisitions or construction costs of infrastructure assets will not be recorded.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building and Improvements	15 – 50 Years
Furniture and Equipment	5 – 20 Years
Vehicles	5 Years

G) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

H) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

I) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) BUDGETS

The Village follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The Village Council prepares a proposed budget on a functional basis using the modified accrual basis for the general and special revenue funds and the accrual basis for its proprietary fund for presentation at a public hearing.
2. A public hearing is held in conjunction with a regular board meeting.
3. The Village Council adopts the budget at a regular board meeting.
4. Excess appropriations at the end of the fiscal year lapse.

Presented budgeted amounts are as originally adopted, or as amended by the Village Council.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the functional level.

The following funds incurred expenditures in excess of appropriations in the following amounts for the year ended March 31, 2008:

General Fund – General Government	\$11,901
General Fund – Public Works	\$14,979

4) DEPOSITS AND INVESTMENTS

As of March 31, 2008, the Village had no investments.

Interest rate risk. In accordance with its investment policy, the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Village's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of March 31, 2008, the Village's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service. The Village's investments in commercial paper were rated A1 by Standard & Poor's, F-1 by Fitch Ratings, and P-1 by Moody's Investors Service. The Village's investments in corporate bonds were rated AAA by Standard & Poor's and Fitch Ratings, and AAA by Moody's Investors Service.

Concentration of credit risk. The Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

4) DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2008, \$1,014,258 of the Village's bank balance of \$1,241,816 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Village will do business.

Foreign currency risk. The Village is not authorized to invest in investments which have this type of risk.

5) RESTRICTED CASH

General Fund:

An account was established to set aside money for the eventual replacement of equipment for the administration, department of public works and the police department. As of March 31, 2008, the balance was \$27,040.

Enterprise Fund:

The general purpose fund, established in 1969 under requirements of the bond issue, is to be used for paying the cost of repairing or replacing any damage to the sewer system which may be caused by any unforeseen catastrophe or for making extensions or improvements to the system. Currently, the general purpose fund is being funded at \$400 per month to provide for the improvement of the sewer system. In addition, the sewer rate increase of \$4 per quarter and delinquent sewer fees collected are transferred to the reserve account. The restricted balance was \$320,787 as of March 31, 2008.

6) DETAILED LISTING OF DESIGNATED FUND BALANCES

A detail description of fund balance designations for the general fund at March 31, 2008 is presented below:

Designated for Equipment Replacement	\$ 27,070
Designated for Park Development	10,690
Designated for Garbage Collection	<u>41,094</u>
 <u>TOTAL</u>	 <u>\$ 78,854</u>

As a general rule the Village will use undesignated funds before designated funds for any of the previous listed expenses.

7) RESTRICTED NET ASSETS

A description of restricted net assets for the proprietary fund at March 31, 2008 is:

Restricted for Sewer Replacement	<u>\$ 320,787</u>
----------------------------------	-------------------

As a general rule the Village will use unrestricted net assets before restricted for any expense for sewer replacement.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

8) PROPERTY TAX

The Village levies its property taxes on July 1 and collects its own property taxes until September 14th. The delinquent real property taxes of the Village are purchased by the County of Shiawassee, and delinquent personal property taxes continue to be collected by the Village and recorded as revenue as they are collected. The County sells tax notes, the proceeds to which have been used to pay the Village for these property taxes. These taxes have been recorded as revenue for the current year.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2008, was as follows:

	Balance April 1, 2007	Additions	Deductions	Balance March 31, 2008
GOVERNMENTAL ACTIVITIES				
Buildings and Improvements	\$35,228	\$0	\$0	\$35,228
Furniture and Equipment	157,568	0	0	157,568
Infrastructure	211,926	0	0	211,926
Vehicles	57,608	0	0	57,608
Totals at Historical Cost	\$462,330	\$0	\$0	\$462,330
Less: Accumulated Depreciation				
Buildings and Improvements	(14,461)	(1,646)	0	(16,107)
Furniture and Equipment	(139,446)	(6,476)	0	(145,922)
Infrastructure	(21,193)	(21,193)		(42,386)
Vehicles	(52,641)	(4,586)	0	(57,227)
Total Accumulated Depreciation	(\$227,741)	(\$33,901)	\$0	(\$261,642)
GOVERNMENTAL ACTIVITIES				
<u>CAPITAL ASSETS - NET</u>	<u>\$234,589</u>	<u>(\$33,901)</u>	<u>\$0</u>	<u>\$200,688</u>
BUSINESS - TYPE ACTIVITIES				
Land	\$27,426	\$0	\$0	\$27,426
Buildings and Improvements	744,685	0	0	744,685
Furniture and Equipment	29,049	0	0	29,049
Totals at Historical Cost	\$801,160	\$0	\$0	\$801,160
Less: Accumulated Depreciation				
Buildings and Improvements	(408,826)	(14,742)	0	(423,568)
Furniture and Equipment	(21,262)	(916)	0	(22,178)
Total Accumulated Depreciation	(\$430,088)	(\$15,658)	\$0	(\$445,746)
BUSINESS - TYPE ACTIVITIES				
<u>CAPITAL ASSETS - NET</u>	<u>\$371,072</u>	<u>(\$15,658)</u>	<u>\$0</u>	<u>\$355,414</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

	Governmental	Business - Type	TOTAL
General Government	\$ 33,901	\$ 15,658	\$ 49,559

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

10) DEFERRED COMPENSATION (457) PLAN

The Village has adopted a Deferred Compensation Plan under Section 457 of the Internal Revenue Code. Individual employees, at their own discretion and in accordance with federal regulations, can elect to have a portion of their salary withheld and contributed to their individual trust accounts. No contributions are made by the Village.

11) INTERFUND BALANCES

Interfund balances at March 31, 2008 consisted of the following:

DUE TO	DUE FROM		
	GENERAL FUND	MAJOR STREET FUND	TOTAL
Major Street Fund	\$22,674	\$0	\$22,674
Enterprise Fund	26,763	0	26,763
Local Street Fund	6,786	7,443	14,229
<u>TOTAL</u>	<u>\$56,223</u>	<u>\$7,443</u>	<u>\$63,666</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

12) FUND BALANCE RESTATEMENT

Beginning Net Assets	\$1,080,204
Adjustments Due to:	
Prior Year Adjustment Made by Client	<u>962</u>
<u>ENDING NET ASSETS - AS RESTATED</u>	<u>\$1,081,166</u>

13) CONTINGENCIES

The Village receives grant funds from federal and state agencies. The grant programs are subject to audits by the granting Village, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Such audits could result in a request for reimbursement by the agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although management expects such amounts to be immaterial.

14) SUBSEQUENT EVENT NOTE

In November 2007, a sewage ordinance issue was brought to the attention of the Village by the State of Michigan Department of Environmental Quality. During the year the Village hired Rowe Incorporated to prepare a sewage cost analysis. Two options were evaluated for the Village, either to have the sewer aligned with the Durand sewage line or to add a new lagoon to the Village limits. The Village passed a resolution to add the new lagoon at a cost of \$1.6 million dollars. The Village has submitted the cost analysis to the State of Michigan Department of Environmental Quality and is now waiting for a response. The Village will be incurring future expenses related to the sewer once a final decision has been made.

**OTHER SUPPLEMENTAL
INFORMATION**

VILLAGE OF VERNON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2008

GENERAL GOVERNMENT

Legislative

Legislative and Administrative Wages	\$59,003
Payroll Taxes	5,427
Office Supplies	3,564
Legal and Accounting	1,963
Community Promotion	4,802
Printing and Postage	1,731
Insurance	29,029
Utilities	4,561
Miscellaneous	237
Contracted Services	20,256
Travel	1,336
Seminars	863
Capital Outlay	672
Total Legislative	<u>\$133,444</u>

Village Hall and Grounds

Wages	3,933
Payroll Taxes	381
Capital Outlay	468
Contracted Services	2,098
Insurance	159
Repairs	4,339
Supplies	1,624
Travel	315
Utilities	8,600
Total Village Hall and Grounds	<u>\$21,917</u>

Election

Wages	520
Contract Services	402
Printing	33
Supplies	85
Total Election	<u>\$1,040</u>

Total General Government	\$156,401
--------------------------	-----------

VILLAGE OF VERNON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2008

PUBLIC SAFETY
Police

Wages	\$47,820
Payroll Taxes	3,799
Capital Outlay	10,687
Contract Services	2,534
Gasoline and Oil	4,982
Insurance	1,064
Legal Fees	508
Miscellaneous	44
Repairs and Maintenance	1,946
Supplies	1,114
Telephone	1,610
Travel	112
Total Police	<u>\$76,220</u>

Building and Zoning

Wages	120
Contract Services	8,071
Legal	70
Supplies and Materials	1,127
Total Building and Zoning	<u>\$9,388</u>

Total Public Safety	\$85,608
---------------------	----------

PUBLIC WORKS
Brush Cleanup

Wages	24,135
Payroll Taxes	1,968
Supplies and Materials	2,191
Contract Services	1,908
Miscellaneous	2,194
Insurance	1,302
Total Brush Cleanup	<u>\$33,698</u>

Sidewalks

Contract Services	11,669
-------------------	--------

Street Lighting

Supplies and Materials	895
Utilities	8,143
Repairs	288
Total Street Lighting	<u>\$9,326</u>

Sanitation

Garbage and Waste Collection	25,169
------------------------------	--------

VILLAGE OF VERNON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2008

PUBLIC WORKS (Continued)

Trees & Services

Contract Services	\$7,017
Supplies and Materials	75
Total Trees & Services	<u>\$7,092</u>

Total Public Works	\$86,954
--------------------	----------

CULTURE AND RECREATION

Parks and Recreation

Wages	2,496
Payroll Taxes	172
Capital Outlay	2,900
Contractual Service	1,096
Insurance	48
Miscellaneous	58
Supplies	715
Utilities	737
Total Parks and Recreation	<u>\$8,222</u>

APPROPRIATIONS

Library	1,000
Conrad Drain Assessment	1,067
Total Appropriations	<u>\$2,067</u>

<u>TOTAL EXPENDITURES</u>	<u><u>\$339,252</u></u>
---------------------------	-------------------------

VILLAGE OF VERNON, MICHIGAN
SPECIAL REVENUE FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2008

	MAJOR STREET	LOCAL STREET	TOTALS
<u>EXPENDITURES</u>			
<u>Street Construction and Maintenance</u>			
Salaries	\$347	\$150	\$497
Payroll Taxes	29	0	29
Contract Services	0	1,993	1,993
Equipment Rental	1,151	1,017	2,168
Insurance	18	8	26
Miscellaneous	1,494	0	1,494
Supplies	402	196	598
Total Street Construction and Maintenance	\$3,441	\$3,364	\$6,805
<u>Traffic Service</u>			
Salaries	2,259	1,338	3,597
Payroll Taxes	294	98	392
Insurance	154	60	214
Total Traffic Service	\$2,707	\$1,496	\$4,203
<u>Winter Maintenance</u>			
Salaries	1,000	0	1,000
Payroll Taxes	10	0	10
Equipment Rental	9,143	2,830	11,973
Supplies	911	866	1,777
Total Winter Maintenance	\$11,064	\$3,696	\$14,760
<u>Bridge Maintenance</u>			
Salaries	157	187	344
Payroll Taxes	13	15	28
Equipment Payable	0	17	17
Equipment Rental	158	0	158
Insurance	9	9	18
Maintenance	1,297	539	1,836
Total Bridge Maintenance	\$1,634	\$767	\$2,401
<u>Drain Maintenance</u>			
Salaries	344	100	444
Payroll Taxes	37	9	46
Equipment Rental	253	20	273
Insurance	10	5	15
Total Drain Maintenance	\$644	\$134	\$778
<u>TOTAL EXPENDITURES</u>	<u>\$19,490</u>	<u>\$9,457</u>	<u>\$28,947</u>

VILLAGE OF VERNON, MICHIGAN
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS -
CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED MARCH 31, 2008

<u>CASH BALANCE - APRIL 1, 2007</u>	\$773
<u>RECEIPTS</u>	
Current Property Taxes	170,218
Delinquent Sewer Fees Added to Levy	12,989
Garbage Assessment	26,800
Total Taxes	<u>\$210,007</u>
Interest Earned	<u>1,800</u>
Total Cash Receipts	<u>\$211,807</u>
<u>DISBURSEMENTS</u>	
Distribution of Collections to General Fund	<u>211,840</u>
<u>CASH BALANCE - MARCH 31, 2008</u>	<u><u>\$740</u></u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

October 13, 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Village Council of
Village of Vernon

We have audited the financial statements of the Village of Vernon as of and for the year ended March 31, 2008, and have issued our report thereon dated October 13, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Vernon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Vernon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Vernon's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

1. Accounting Expertise

Effective for the year ended December 31, 2006, Statement on Auditing Standards #112 titled, *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and the footnotes required in the annual audit. Based upon discussions with management and audit work performed in the current year, the Village has the capability to perform monthly internal accounting functions and provide timely reports as requested by the board. The Village does not have the personnel with qualifications and training necessary to generate financial statements, including the required eliminating entries and footnotes, in accordance with accounting principles generally accepted in the United States of America. We would expect this comment to continue from year to year. We do not recommend any changes to this situation at this time and communicate this as required by professional standards.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Vernon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the finance committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC
LEWIS & KNOPE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS